Appl. 31542-AS

Decision No. 45279

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SAN DIEGO TRANSIT SYSTEM for)
authority to increase rates.)

Application No. 31542

Appearances

Fred E. Lindley and Leon W. Scales, for applicant.
Louis M. Karp, for City of San Diego, protestant.
Verne O. Warner, for City of National City, protestant.
Albert C. Boyer, for City of Chula Vista, protestant.
William Van V. Stewart, for Commanding Officer U.S. Naval Air Station, protestant.
Lewis N. Evans and Carl F. Murchie, for Commandant Eleventh Naval District, interested party.
Estelle M. Henderson, for San Diego Real Property League, protestant.
Walter Davis, for Chula Vista Chamber of Commerce, protestant.
Mrs. H. J. Mann and Mrs. E. J. Roberson, for San Diego Council of Parent Teacher Associations, protestant.
A. J. Callahan, for Naval Air Station Employees Association, protestant.
Ralph C. Dailard, for San Diego City Schools, interested party.
Mrs. G. C. Stead and Mabel I. Wagner, in propria persona, protestants;
Mrs. C. A. Peterson, Nellis M. Marker, and L. S. Rickard, in propria persona, interested parties.
Wilson E. Cline, for staff of the Public Utilities Commission of the State of California.

OPINION

San Diego Transit System is engaged in the business of transporting passengers by motor bus within and between the Cities of San Diego, Coronado, National City, Chula Vista, La Mesa and El Cajon, and in intermediate and surrounding territory, all in the County of San Diego. By this application, as amended, it seeks authority to increase fares, and to make the changes effective on less than statutory notice.

Public hearings were held before Commissioner Rowell and Examiner Bryant at San Diego in October and November, 1950.[1] Briefs have been filed, and the matter is ready for decision.

Applicant alleges that the number of passengers carried has declined steadily since 1945. The application recites that the reduction in patronage is attributable largely to a decrease in the number of employed persons in the San Diego area, a sharp decrease in the number of military and naval personnel stationed in and entering the area, a decline in population since 1946, an increase in passenger automobile registrations and use within the area served by applicant, the general reduction of the work week to five days and the resulting decrease of riders, principally on Saturday, and the growth in popularity and use of home television sets as a substitute for other types of entertainment requiring transportation from the home.[2] Assertedly the company has effected a reduction in its expenses by putting into effect numerous economies of operation, but, notwithstanding such economies, the reduction in operating costs has not kept pace with the decline in revenues. Applicant alleges that it is impossible to reduce expenses further without seriously impairing the standards of good service which the public expects and requires. Because of these circumstances, the company declares, the present fares are not reasonable or compensatory, and do not yield a sufficient amount of money to provide a fair return on applicant's investment, or completely cover operating expenses.

Applicant's fare structure is based on a zone system, with seven zones radiating from the business center of the City of San Diego. The present adult cash fare is 10 cents within any one or

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[1] October 10 and 12, November 8, 9 and 10, 1950.

[2] The application was filed on June 29, 1950.

two zones, with five cents added for each additional zone. There are weekly passes, round-trip tickets, and school fares, but no token fares. Applicant proposes to increase the 10-cent fare to 15 cents or two tokens for 25 cents; to discontinue the use of weekly passes and round-trip tickets; and to make an increase of 50 cents in the monthly-pass rate for each type of school pass. The present and proposed fares are shown in detail in the margin.[3]

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[3]

	Present Fare	Proposed Fare
CASH FARES		
Within any one or any two Zones	10¢	15¢ or 2 tokens for 25¢
Additional Zones	5¢	5¢
WEEKLY PASSES		
Through Zones 1 and 2	$1.75	Cancel
ROUND TRIP TICKETS		
Zones 1 to 4	30¢	Cancel
Zones 1 to 5	40¢	Cancel
Zones 1 to 6	50¢	Cancel
Zones 1 to 7	60¢	Cancel
SCHOOL PASSES		
Zones 1 & 2 - 4:00 P.M. Limit	$1.50	$2.00
Zones 1 & 2 - 6:00 P.M. Limit	2.00	2.50
Suburban - 4:00 P.M. Limit	1.50	2.00
Suburban - 6:00 P.M. Limit	2.00	2.50
State College Training School	2.00	2.50
Zones 1 to 3	2.50	3.00
SCHOOL TICKETS		
Form N-33 - 20 Round Trips, Pacific Beach School	$2.00	$2.00
Form 50 - 20 Round Trips, La Mesa School	2.50	2.50
Form 52 - 20 Round Trips, Encanto School	3.00	3.00
OTHER TICKETS		
Form 35 - 60 Rides - 5¢ Coupon	$3.00	$3.00
Form 35 - 60 Rides -10¢ Coupon	6.00	Cancel

The principal evidence concerning the financial results of the company's operations under present and proposed fares was introduced by the applicant, by the City of San Diego, and by the Commission's staff. In addition, evidence relating to various phases of the service and fares was offered by others. The city manager of the City of National City, through exhibits and testimony, introduced substantial factual data concerning the development and growth of that city in terms of building permits, home construction, sales tax revenues and occupational licenses. An associate superintendent of the city schools of San Diego testified concerning actual and projected increases in school enrollment and related matters. An industrial relations assistant of the United States Naval Air Station described an extensive survey which he had made of the transportation requirements of the employees of that station. He suggested various means by which, in his opinion, the San Diego Transit System might increase its revenues through the establishment of special express services to satisfy the requirements. A representative of McKinley Civic Association suggested means by which he believed service might be improved and revenues increased; and several other public witnesses offered testimony concerning various aspects of the service and of the present and proposed fare structures.

Applicant, through its president and general manager, two vice presidents, its claims manager, and its superintendent of traffic, introduced data relating to past operations and detailed computations and estimates of operating results under present and proposed fares for the year ending September 30, 1951. These data show that the company, for the year ended September 30, 1950, had operating revenues of $4,871,157, and operating expenses of $4,870,181, resulting in net operating revenue for the period of $976.

The company's operating experience for the year ended September 30, 1950, as shown in its Exhibit No. 1, is shown in more detail in the following tabulation:

Operating Revenues		$4,871,157
Operating Expenses		
Equipment Maintenance	$ 888,461	
Transportation Expense	2,359,075	
Traffic Solicitation and Advertising	70,146	
Insurance and Safety Expense	178,454	
Administration - General Expense	387,895	
Operating Rents	15,323	
Depreciation and Amortization	509,180	
Operating Taxes and Licenses	461,647	
Total		$4,870,181
Net Operating Revenues		$ 976

(Note: September figures were partly estimated by the company on basis of average of June, July and August, 1950.)

For the calendar year 1949, as shown in an exhibit introduced by the Commission's staff, the company's operating experience was as follows:

Operating Revenues		$5,908,604
Operating Expenses		
Operating and Maintenance	$4,834,168	
Depreciation	398,561	
Amortization	28,495	
Operating Taxes and Licenses	539,445	
Total		$5,800,669
Net Operating Revenues		$ 107,935
Provision for Federal Income Taxes		39,021
Net Operating Revenues after Income Taxes		$ 68,914

For the year ending September 30, 1951, according to applicant's figures, the company would suffer a substantial loss if required to operate at the existing fares, and would earn approximately two percent on its claimed rate base if the proposed fares were established. On behalf of the City of San Diego a consulting engineer submitted a study of estimated results of operation of San Diego Transit System for an undesignated test year. The study included estimates of revenues and expenses under present and proposed fares. However, at the hearing certain oversights were disclosed which required post-hearing correction. In its brief the City presented figures to show the corrections that should be made in its engineer's estimated results under present fares. According to such corrected figures the rate of return would exceed 16 percent on one premise and 12 percent on another. Because of the high return indicated, the City said that "it must stand upon the present fares." Therefore, it did not submit corrected estimates of results under the proposed fares. The Commission's staff introduced various financial statements, a report on balance sheet and income accounts, and detailed estimates of results of operation under present and proposed fares. According to the estimates, the company would have an operating loss at the existing fares, and at the requested fares would earn about 10.6 percent on the rate base used by the staff. A staff witness introduced also a study of results under certain alternate fare adjustments, one of which would provide an estimated return of 7.8 percent and the other a return of 9.2 percent. The several estimates, with minor modification necessary to correct obvious error, are summarized in Tables 1 and 2 which follow:

TABLE 1 - ESTIMATED OPERATING RESULTS
UNDER PRESENT FARES

	Applicant's Exhibit	City of San Diego Engineer	Commission Engineer
Operating Revenues	$4,093,397	$5,253,395	$4,189,091
Operating Expenses	4,814,339	4,569,725	4,331,916
Net Operating Revenue	$ (720,942)	$ 683,670	$ (142,825)
Income Taxes	-	317,692*	-
Net Operating Income	$ (720,942)	$ 365,978	$ (142,825)
Operating Ratio (Before Income Taxes)	117.6%	87.0%	103.4%
Rate Base	$4,753,515	$2,853,475	$3,868,600
Rate of Return (After Income Taxes)	-	12.8%	-

*Federal income taxes computed on present corporation income tax rate for calendar year 1951, as provided in Revenue Act of 1950.

(________) - Loss

The estimate of the City of San Diego engineer is for an undated test year; other estimates are for twelve-month period ending September 30, 1951.

TABLE 2 - ESTIMATED OPERATING RESULTS
UNDER PROPOSED FARES

	Applicant's Exhibit	Commission Engineer	Commission Engineer Alternate Fare Proposals Case I	Case II
Operating Revenues	$4,849,713	$4,994,899	$4,805,949	$4,905,944
Operating Expenses	4,666,083	4,253,320	4,269,673	4,271,458
Net Operating Revenue	$ 183,630	$ 741,579	$ 536,276	$ 634,486
Income Taxes	82,633	330,548	233,645	280,000
Net Operating Income	$ 100,997	$ 411,031	$ 302,631	$ 354,486
Operating Ratio (Before Income Taxes)	96.2%	85.2%	88.8%	87.1%
Rate Base	$4,753,515	$3,868,600	$3,868,600	$3,868,600
Rate of Return (After Income Taxes)	2.1%	10.6%	7.8%	9.2%

Note: The City of San Diego, concluding after correction of its exhibit that the present fares are adequate, did not submit a corrected estimate of results under proposed fares.

Case I - Provides for 12 cents cash fare in any one or any two zones. In all other respects the fare structure is the same as that proposed by applicant.

Case II - Provides for 15 cents cash fare or three tokens for 35 cents with weekly pass at $2.00. In all other respects the fare structure is the same as that proposed by applicant.

It will be seen from the foregoing tables that the several witnesses reached substantially different conclusions concerning anticipated results of operations under both present and proposed fares. The differences may be attributed to a number of factors, the principal of which are differences of opinion concerning proper elements to be included in the rate base, concerning the number of passengers to be carried in the test year, and concerning the propriety of charging to expense certain amounts for amortization of retired street railway facilities, for dismantling such facilities, and for repaving of streets.

Disputed items in the rate base are depreciated buses, working capital, and retirement and dismantling losses. The company utilizes in its operations approximately 340 buses, of which 144 are fully depreciated on the books. Applicant included in its rate base an item of $677,200, representing "use" value of the 144 depreciated vehicles.[4] The City of San Diego excluded these depreciated buses from the rate base entirely. The Commission's staff included 20 buses which were depreciated under a wartime depreciation plan, omitting the other 124.

The general rule is that whenever property of a public utility has been fully depreciated on its books, based upon a normal and reasonable service life of such property, the same may not be included in the rate base. This rule flows from the principle that a utility may not earn a return upon property which has been fully depreciated. However, the situation presented here is one that peculiarly lends itself to exceptional treatment. We believe that an exception to the general rule should be indulged in the instant

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[4] Use value was computed by the company at $1,400 per year of remaining service life, an amount arrived at by dividing current cost by total years of service.

circumstances. The fact is that the actual life of these buses is greater than that estimated and upon which depreciation charges were based. This equipment remains serviceable and the actual experience indicates that the lives used for purpose of depreciation, although generally considered to be reasonable and normal, did not coincide with the actualities of the case. These buses are operative property now being employed for the public use. They are particularly useful at peak hours of traffic and without them the utility's operations would be greatly hampered. Equity requires that these facts not be ignored. Therefore, it is our judgment that there remains an average of approximately one year of service in these buses to which we will assign an allowance of $165,000 in the rate base.

The difference between the rate-base estimates is attributable in part to an amount of $240,000 for working cash capital, which the company claims and which the staff and the City of San Diego disallow. The company declared that $240,000, representing five percent of the annual revenue which it estimates will be received under the sought fares, is the minimum amount which is necessary and necessarily used in the operation of the business, being money in the till, in the hands of drivers, cashiers, and ticket sellers, in the bank, or being accumulated to meet demands. The Commission's staff introduced exhibits to show that the operations of the company would generate ample bank balances to supply all of its needs for working capital during the rate year. The City accepted the staff's conclusions. The company replied that the exhibits only demonstrate that working cash is essential, and that even if the carrier could start without money and accumulate the required working cash, that cash would be the property of the company, would be devoted to the efficient operation of the business, and would be necessary therefor. "Any way it is figured," applicant argues, "it is necessary to have a certain amount of cash and bank credit in the operation of the business. It belongs to the company and is just as necessary as the materials and supplies in the inventory." There is no question that the company requires cash and banking credit in the operation of its business. We conclude from the evidence, however, that the company can obtain sufficient cash balances for its normal requirements by making careful use of revenues as they become available. Under these circumstances there is no necessity to include an allowance for working cash in the rate base.

The company and the Commission's staff included in the rate base substantial amounts for the undepreciated investment in street railway facilities retired from service and for dismantling and paving costs which were included in the base under a provision for amortization over a 10-year period.[5] The City of San Diego excluded all of these items from the rate base, contending that there has been sufficient depreciation reserves accumulated to take care of them, and that the reserves, which assertedly totaled $12,000,000 at one time, included the factor of obsolescence.[6]

These items have been fully considered in the prior proceedings involving the same parties, and there is now no evidence of changed circumstances. However, it appears from the present record that our earlier decision has been misconstrued by the parties. It was concluded (Decision No. 42203, 48 Cal.P.U.C. 309) that "both the public and the company will be better served by amortizing these

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5 For these items the company used a total amount of $758,460 and the staff an amount of $845,594. The difference arises from the fact that applicant amortized the items over a period ending December 31, 1958, whereas the staff amortized each item over 10 years from the date it occured.

6 The depreciation reserve approximated $6,000,000, not $12,000,000. The City's consultant developed the larger figure by adding a "depreciation reserve" to a "depreciation fund," thus in effect doubling the depreciation reserve.

unusual costs over a period of years and allowing interest on the unrecovered balance. Throughout the entire life of most of this property, depreciation expense has been approved and funded under the supervision of this Commission and applicant has not been fully reimbursed for its investment for the facilities under consideration, which have been retired as a result of the substitution of a more efficient bus operation." All of the parties have evidently drawn from the language of the decision the conclusion that the amounts in question should be included in the rate base. Such was not the purport of the order. The amounts should be excluded from the rate base. In lieu thereof, interest on the unamortized balances should properly be recognized as an operating expense.

The several rate-base differences are set forth comparatively in the following table, which shows also the modifications adopted in accordance with the foregoing conclusions:

TABLE 3 - Development of Rate Base

	Applicant	City of San Diego	Commission Staff	Modified
Property and Equipment	$2,672,905	$2,673,475	$2,562,645	$2,562,645
Allowance for Buses Fully Depreciated on Books	677,200	-	84,000	165,000
Materials and Supplies	217,450	180,000	180,000	217,450
Average Cost of 20 New Buses	187,500	-	196,344	196,344
Book Value of Abandoned Street Railway Equipment and Dismantling and Paving Costs	758,460	-	845,594	-
Working Capital	240,000	-	-	-
	$4,753,515	$2,853,475	$3,868,583	$3,141,439

A rounded figure of $3,100,000 may be taken, for purposes of this proceeding, to represent the rate base of the applicant company.

Differences in the estimates of operating revenues, as shown hereinbefore in Tables 1 and 2, are due almost wholly to differences in judgment concerning applicant's future business volume. The estimates of revenue passengers to be carried during the rate year, assuming no deflection from higher fares, were 40,731,570 by the company, 40,112,800 by the Commission's staff, and 47,661,827 by the City of San Diego.[7] The company and the staff developed their figures by using the experience of the applicant to develop a downward trend, then in effect reducing the downward trend by ten percent in recognition of an apparent change brought about by recent expansion of military and defense activities in the San Diego area. Applicant based its trend upon the experience from 1945 to August, 1950; the staff upon the experience from January, 1949, through August, 1950. The City of San Diego, on the other hand, drew from the experience figures a conclusion that the downward trend seemed to be halted with the beginning of 1950, turned downward again in May and June, then suddenly turned upward in July, August and September with the change in defense activities. Upon this basis the City applied an estimated ten percent increase "from the present rider pattern" established in the six months from April through September, 1950, whereas the company and the staff witnesses continued the long-term downward trend before assigning the ten percent increase.

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[7] The company estimated revenues upon the basis of 37,028,700 passengers, then added ten percent for "additional possible revenue due to war activities in San Diego area."

It is the position of the company that its estimates for the future must be guided by experience of the past, that it is impossible to foresee the extent to which the trend of the past will be changed by developments of the future, and that in assuming a ten percent increase in the number of passengers indicated by the long-term trend the company is making generous allowance for potential patronage. The City of San Diego, on the other hand, argues that the peacetime economy which settled down on San Diego in 1945 was suddenly changed on June 25, 1950, by the plunging of this country into a war economy. It states that the rearmament program is slated to increase yearly at least until 1953, and that the economy of San Diego is directly geared to the defense program. The City declares that San Diego Transit System will no longer have the problem of trimming its service to meet a continued shrinking of patronage, and that the problem for the next two years will be to take care of an increased military personnel and an enormously enlarged labor program created by accelerated demands for aviation equipment. The consultant for the City asserted that, because of shortage of time, his projections and estimates were overly conservative, that the next few months may foretell the trends, and that the company may in fact find it advisable to reduce fares in the period between 1950 and 1953 as it did between 1940 and 1943.

Determination of the most reasonable estimate of applicant's passenger volume during the rate year, upon which the outcome of this proceeding so largely depends, is a grave and important matter. The

City of San Diego, in adding ten percent to a "level"trend" based upon the experience of six-month period, in a business of seasonal nature, was more optimistic than realistic. Their method disregards past trends entirely, overlooks seasonal variations, and assumes a definite reversal of trend of which there has been no clear manifestation. This Commission, with its responsibility to the utility and to the public to see that earnings are sufficient to assure the maintenance of essential services, must necessarily avoid unwarranted optimism concerning patronage of the utility. On the other hand, neither the company nor the staff has given sufficient recognition to definite signs indicating the probability of relatively increased patronage. Some of these signs were not evident until the several studies neared or passed completion, hence it is understandable that they were not fully appraised. Moreover, this Commission takes official notice of the fact that the President of the United States, on December 16, 1950, proclaimed a state of national emergency and called for a fivefold increase in aircraft production within a year. Because of the importance of the San Diego area as a military center and as a center for the production of aircraft, it is reasonably certain that within the rate year the resident and nonresident population will increase, and that this and other conditions will induce relatively greater patronage of applicant's facilities.

Upon consideration of all of these factors, it is concluded that applicant may reasonably be expected to transport approximately 43,000,000 passengers during the rate year at its present fares.[8] Any upward fare adjustment will of course deflect some potential riders; and the witnesses were in agreement upon a formula for predicting the deflection factor. The estimate of 43,000,000 passengers may be adjusted accordingly, depending upon the fares under consideration. The number of passengers having been thus determined, the operating revenues may be estimated readily from data of record.

The differences in operating expenses as estimated by the several witnesses are due largely to differences of opinion concerning the number of bus miles required to be operated during the rate year; but also to certain other questions which will now be considered. Applicant and the Commission's staff were in substantial agreement regarding annual charges for amortization of abandoned street railway equipment and for track removal and street paving. The City of San Diego, however, argues that the company should have foreseen the abandonment and consequences thereof, and should have recovered its investment in the past through charges to depreciation. Since it did not do so, the City urges, the losses should be borne by the company and not by the present rate payers. Applicant replies that the property was a prudent investment when it was purchased, was retired as obsolete because of the substitution of more efficient buses and therefore should be amortized. We conclude, as we have in the past (Decision No. 42203, supra), that both the public and the company

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[8] The total number of passengers carried in each year from 1945, excluding transfers, is shown in applicant's Exhibit No. 1 as follows:

1945 - 128,912,070	1948 - 65,087,304
1946 - 95,976,416	1949 - 52,981,081
1947 - 77,438,519	1950 - 34,319,883 (9 mos. only)

will be best served by amortizing these unusual costs over a period of years. The sums now being amortized represent only the remaining investment over and above that which was recoupod through the depreciation account. The substitution of buses for street railway equipment resulted not only in improved service, but also in savings in operating expenses greater than the annual amortization requirements. Thus it will be seen that amortization of the unrecouped rail line investment was and is a benefit, not a burden, to the rate payers. It may be observed parenthetically that the cities offered no objection to the abandonment of the street railway system in favor of the more efficient and economical bus system when that change was before the Commission for consideration.

Similarly, applicant and the staff are in agreement concerning the amount estimated to be required for injury and damage claims during the year, while the City of San Diego asserts that the amount thus allowed is excessive. The amount in question is triple that actually expended in the previous year, a difference which the company explains by saying that claim settlements were delayed by crowded court calendars, recently corrected, and by a recent substitution of attorneys. The staff witness testified that he had studied this account carefully, that based on dollar revenue it was the lowest in the State, and that in his opinion it was a reasonable estimate. The record is clear that over recent years this company has had lower expense for injuries and damages than any similar transit system in the State. Although the expense in the past twelve months was subnormal, it is sufficient to allow approximately double this figure for the rate year. The amount included in the City's exhibit appears to be a reasonable estimate of normal expenses for this item.

One of the most important factors affecting the operating expenses of a transit system is the miles its buses run, since bus mileage directly affects most of the operating expense accounts. Applicant's estimate of bus miles was predicated upon the amount of service which was rendered during the months of July and August, 1950, adjusted for the future upon the basis that each 10 percent reduction in passengers would permit an 8 percent reduction in bus mileage. The Commission's staff deducted from the July-August figure the mileage which it determined to be in excess of that required to render service comparable to that prescribed by the Commission in other large urban communities. This estimate was adjusted to the traffic levels estimated for the test year on the basis that each 10 percent reduction in passengers would permit a five percent reduction in bus mileage. The City of San Diego adopted the level of bus miles being operated in August, contending that this mileage would be ample inasmuch as the Commission's staff had shown the company to be rendering more service than necessary during the months of July and August.

In basing its estimates upon mileage less than that actually operated by the company, the Commission's staff contemplated that (for rate purposes, at least) service standards should be on a level which the Commission has generally required as minimum.

The company urged that it was exercising sound judgment in maintaining service somewhat better than required under the minimum standard. In its brief the applicant states: "We are not arguing for a lax system of scheduling and unnecessary miles. We are fully aware of the responsibility of management for vigilant economy in all operations. We are pointing out the difference between theoretical analysis and practical operation. We are urging that management be allowed sufficient latitude to meet its problems without taking steps so drastic that they will alienate good will and patronage." We conclude from the evidence that estimated bus miles for the rate year should not be based upon service standards lower than those which the company maintains and which it believes should be continued. With this exception, the relationship between passengers carried and bus miles required to be operated, as developed by the Commission's staff and explained by the staff witnesses, is reasonable and should be adopted for purposes of this proceeding. The actual mileage estimate will necessarily be adjusted in accordance with our foregoing conclusions concerning the number of passengers to be transported during the coming year. The estimate of operating expenses may be corrected accordingly.

If the operating revenues and expenses were revised in accordance with all of the conclusions hereinbefore set forth, applicant's estimated operating results for the rate year under present fares, proposed fares, and certain alternate fares would be as indicated in the following table:

TABLE 4 - Estimated Operating Results, Revised and Modified

	Present Fares	Company Proposed Fares	Alternate Fares
Revenues	$4,472,595	$5,292,190	$5,105,170
Expenses	4,774,980	4,641,280	4,665,000
Net Before Income Taxes	$ (302,385)	$ 650,910	$ 440,170
Income Taxes	--	319,310	190,440
Net After Income Taxes	$ (302,385)	$ 331,600	$ 249,730
Rate Base	$3,100,000	$3,100,000	$3,100,000
Rate of Return	--	10.7%	8.1%
Operating Ratio			
Before Income Taxes	107.0%	87.7%	91.4%
After Income Taxes	107.0%	93.7%	95.1%

( ) - Indicates Loss

The alternate fares referred to in the table would provide a fare of 13 cents cash or two tokens for 25 cents within any one or between any two contiguous zones. Round-trip fares would be eliminated as proposed by the company. The weekly pass would be retained at $2.25 (now $1.75) rather than eliminated as sought by applicant. School fares would remain unchanged. The record does not support the request for increased school fares.

We have reviewed all of the evidence carefully, and are satisfied that an adjustment in the fares of San Diego Transit System is necessary. At present fares, even with prospects of relatively increased patronage, it is evident that the revenues will not meet the expenses of operation. However, we are equally satisfied that the fares sought by the company are likely to produce revenues considerably greater than necessary to meet all of the costs of operation and return a reasonable profit. The alternate fare structure would, we conclude, enable the San Diego Transit System to carry out its declared policy of maintaining all equipment in good operating condition, and rendering to the public the best service consistent with sound economies of operation.

Based upon the evidence of record, the Commission finds:

1. That applicant's revenue under the present fare structure is not sufficient to cover the cost of providing the service and allow a reasonable return on investment.

2. That the fare structure authorized in the following order has been justified.

O R D E R

Public hearings having been held in the above-entitled application, full consideration of the matters and things involved having been had, and the Commission being fully advised,

IT IS HEREBY ORDERED that San Diego Transit System be and it is hereby authorized to establish, on not less than five (5) days' notice to the Commission and to the public, the following changes in fare structure:

1. Increase the fare within any one or between any two contiguous zones from 10 cents cash to 13 cents cash or one token, the tokens to be sold at two for 25 cents.

2. Increase the weekly pass fare within and between Zones 1 and 2 from $1.75 to $2.25.

3. Cancel round-trip fares applicable between Zones 1 and 2 on the one hand and Zones 4, 5, 6 and 7 on the other hand.

4. Cancel provision for sixty-ride 10-cent coupons at $6.00.

IT IS HEREBY FURTHER ORDERED that, in addition to the customary filing and posting of tariffs and time schedules, applicant shall give not less than five (5) days' notice to the public by distributing and posting in its buses a printed explanation, or, if feasible, a small map of the areas involved, or both, showing clearly the application of the new fares.

IT IS HEREBY FURTHER ORDERED that the authority herein granted shall expire ninety (90) days after the effective date of this order.

IT IS HEREBY FURTHER ORDERED that in all other respects the above-entitled application be and it is hereby denied.

This order shall become effective twenty (20) days after the date hereof.

Dated at San Francisco, California, this 16th day of January, 1951.

R. E. Mittelstaedt

Justus F. Craemer

Harold P. Huls

Kenneth Potter

Commissioners